

Sunway Construction (BUY ↔; EPS ↑)

INDUSTRY: OVERWEIGHT

COMPANY INSIGHT

29 March 2016

Price Target: RM1.94 (↑)

Share price: RM1.67

The ultimate construction proxy
Highlights

- **Meet up with parent-co.** Yesterday, we met up with the management of Sunway (BUY, TP: RM3.63) which was represented by its CFO, Mr Chong Chang Choong. Sunway is the parent-co of SunCon with a 54% stake.
- **MRT2 takes off.** MRT Corp yesterday announced that it has awarded Package V201 of the Sg Buloh-Serdang-Putrajaya line (MRT2) worth RM1.21bn to SunCon. The said package spans 4.9km from Sg Buloh to Persiaran Dagang which is scheduled for completion in 2Q21.
- **Better margins likely.** SunCon's bid is said to be the lowest amongst the 4 bidders for Package V201. Despite that, we reckon that margins for this MRT2 job are likely to be higher than that for MRT1. Having garnered experience from MRT1, management guides that it is now in a better position to price for contingencies in its bid. From our calculations, the average price per km for Package V201 stands at RM247m, 34% higher than that for Package V4 (MRT1) which was also undertaken by SunCon.
- **Boasting a record orderbook...** SunCon has managed to amass RM1.4bn worth of new jobs YTD (RM1.2bn from MRT2 and RM170m from its parent-co and precast). We estimate its orderbook to currently stand at a record RM5bn, translating to a healthy cover ratio of 2.6x on FY15 revenue.
- **...and gunning for more.** Management is upbeat that it can secure RM2.5bn worth of new contracts this year (55% achieved YTD). It has tendered for the Pan Borneo Highway which should rake in at least another RM300m based on a 30% stake at a conservative RM1bn contract sum. Apart from that, has been prequalified for the SUKE (RM4bn) and DASH (RM4bn) and is undergoing prequalification for the LRT3 (RM9bn). There are also several private sector jobs such as (i) Ikea Mall in Tebrau (RM300m) where SunCon is one of the three prequalified names and (ii) an aero maintenance facility (>RM100m) near Subang Airport and (ii) contracts from its parent-co (RM400-500m).

Risks

- Execution may be a risk given its all-time high orderbook.

Forecasts

- We raise our FY16 new job wins target from RM2bn to RM2.5bn as YTD flows have been robust. This increases our FY16-17 earnings forecast by 3-7%.

Rating
Maintain BUY, TP raised to RM1.94

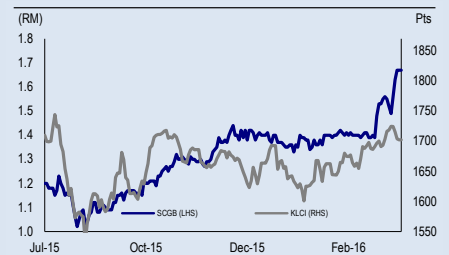
- SunCon is a well-managed company with commendable execution capability, putting it in a polar position to ride on the robust flow of mega contracts expected this year.

Valuation

- Aside our earnings upgrade, we also raise our P/E target from 16x to 18x and roll forward our valuation horizon from FY16 to mid-CY17, increasing our TP from RM1.59 to RM1.94. We reckon that the premium valuation is warranted given (i) its superior ROE of 32% which is 3-fold compared to the industry average of 11% and (ii) scarcity premium as a pure construction play.

Jeremy Goh, CFA
pwgoh@hlib.hongleong.com.my
(603) 2168 1138

KLCI	1702.4
Expected share price return	16.2%
Expected dividend return	2.2%
Expected total return	18.3%

Share price

Information

Bloomberg Ticker	SCGB MK
Bursa Code	5263
Issued Shares (m)	1,293
Market cap (RM m)	2,159
3-mth avg. volume ('000)	2,493
SC Shariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute	19.3	21.0	NA
Relative	15.9	19.8	NA

Major shareholders

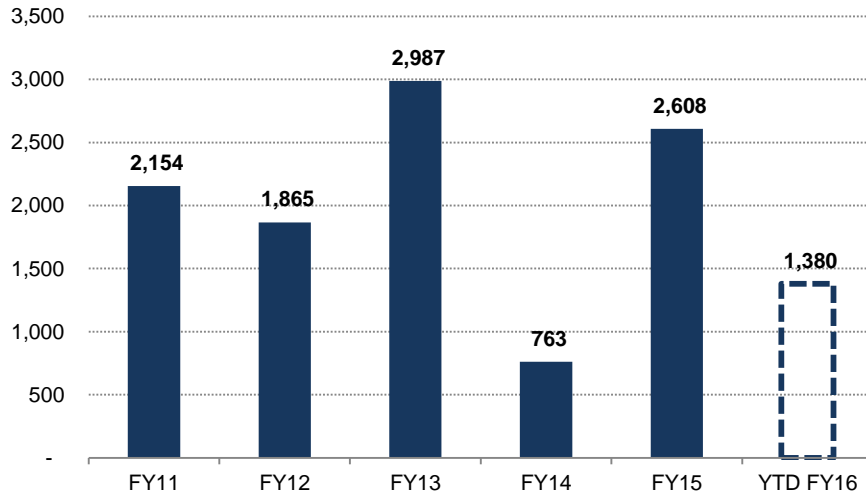
Sunholdings	54.42%
SUngei Way Corp Sdn Bhd	7.02%
Norges Bank	1.82%

Summary Earnings Table

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F
Revenue	1,881	1,917	2,227	2,494
EBITDA	162	178	209	230
EBIT	120	136	167	186
Profit Before Tax	151	141	166	186
Core PATAMI	125	127	131	147
vs Consensus (%)			(5)	(6)
Core EPS (sen)	9.7	9.8	10.2	11.3
P/E (x)	17.3	17.0	16.4	14.7
Net DPS (sen)	2.0	4.0	3.6	4.0
Net DY (%)	1.2	2.4	2.1	2.4
BV per share	0.26	0.35	0.37	0.44
P/B (x)	6.5	4.8	4.5	3.8
ROE (%)	28.7	32.4	26.1	24.3
Net Gearing (%)	CASH	CASH	CASH	CASH

HLIB

Figure #1 Annual orderbook replenishment (RM m)



Company

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Hong Leong Investment Bank Berhad (10209-W)
 Level 23, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.